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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 002206

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SUBJECT: KMT LY SPEAKER WANG JIN-PYNG ON ANNUAL BUDGET, UN
REFERENDUM

Classified By: Director Stephen M. Young, Reason(s): 1.4 (B/D).

11. (C) Summary: KMT Legislative Yuan (LY) Speaker Wang Jin-pyng told the Director on September 27 that he hopes the LY will pass the 2008 annual budget before the current session ends around mid-December. Wang predicted the 2008 budget will include defense spending equivalent to 3 percent of GDP. The Director urged Wang to use his influence to help defuse the controversy over U.S. pork imports with ractopamine. The public is opposed to relaxing Taiwan's zero-tolerance standard on ractopamine, Wang responded, and he and other politicians fear a backlash from Taiwan's farmers if they agree to lift the restriction. Wang spoke positively of KMT party unity and KMT presidential candidate Ma Ying-jeou, but hesitated to predict a KMT presidential victory. The parties will not forego their respective UN referenda in favor of a "consolidated" referendum because, without the controversy, voters will lose interest. End summary.

12. (C) The Director met with KMT LY Speaker Wang Jin-pyng on September 27 to discuss Taiwan's annual budget, including defense spending, and the ongoing difficulties over ractopamine restrictions on US pork imports. The Director told Wang that many high-level officials in Washington are critical of Taiwan's UN referenda, and that U.S.-Taiwan relations are under significant pressure. Despite its close friendship with Taiwan, the U.S. must take steps to preserve its own national security, and these include trying to minimize tensions between China and Taiwan.

ANNUAL BUDGET

13. (C) Wang said he hoped the LY will pass the 2008 annual budget before December 12, 2007. Wang explained that it is customary for the LY to suspend operations for the month preceding legislative elections to allow sitting legislators to focus on their re-election campaigns. Because the LY elections are scheduled for January 12, 2008, Wang continued, the current LY session will likely close on or around December 12, 2007. Wang told the Director that while he could not promise that the budget process would be smooth, he hoped legislators will cooperate to put the budget issue behind them before the LY elections. If that is not possible, Wang continued, the budget must be passed before the result of the presidential election is announced next

March; otherwise, legislators from the losing party might protest their party's defeat by boycotting the budget process.

DEFENSE BUDGET

14. (C) According to Wang, the current defense budget is at or near 2.8 percent of GDP, and the LY is on track to approve a 2008 defense budget equivalent to 3 percent of GDP. If certain weapons systems or other defense items are not purchased, the Director urged Taiwan to retain such funding for defense purposes, otherwise, defense expenditures will not meet the 3 percent-of-GDP goal. Wang acknowledged this problem, and raised the concern that the LY might hesitate to allocate funds for the purchase of F-16 fighter aircraft without some kind of assurance from Washington that the planes would ultimately be sold. The Director told Wang that the sale of the F-16's was by no means a given, even if adequate funds were included in the defense budget. However, if the budget did include funding for the F-16's, the Director continued, it would be much easier to convince US decision-makers that Taiwan was genuinely committed to the sale. Wang proposed that the US and Taiwan revisit this issue next year, after the election of a new president. The Director responded that it would be best if funding for all items, including F-16's and PAC-III's, was preserved in the 2008 budget up for consideration in the fall. (Comment: Despite the Director's specific caution that this exchange was sensitive and not to be shared with the press, the PR-conscious Speaker promptly briefed the media in a self-serving manner, stories of which appeared in September 27 morning newspapers. End Comment.)

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RACTOPAMINE ISSUE

15. (C) The Director raised concern over current politicizing of the issue of U.S. pork imports containing ractopamine. Wang told the Director that "in all opinion polls" the public disapproved of allowing US pork products containing ractopamine to enter the Taiwan market. Wang also protested that he and other political figures would be castigated by farmers' groups and public health advocates if they were to lift the restriction. Taiwan's farmers are using unjustified public health concerns to conceal their protectionist motives, the Director countered. Japan, Korea, and other Asian nations have already adopted an international standard on acceptable levels of ractopamine, the Director continued, and Taiwan has no scientific basis to do otherwise. U.S.-Taiwan relations are especially sensitive now, the Director cautioned, and in this context Taiwan should try to avoid a clash over agricultural imports. If this issue is not resolved amicably, the Director added, it could further complicate U.S.-Taiwan relations. Wang acknowledged the U.S. concern, but did not offer any promises to help resolve the issue.

KMT POLITICS

16. (C) Asked about KMT politics, Wang said KMT party unity is "not bad" at this point in the legislative and presidential elections. In a departure from his past critical assessments of KMT presidential candidate Ma Ying-jeou, Wang remarked that Ma's "long-stay" program in southern Taiwan is beginning to bear fruit. According to Wang, DPP internal polls put DPP presidential candidate Frank Hsieh (Chang-ting) 13 points behind Ma, but no one within the KMT is willing to predict a victory. This is because nearly 40 percent of Taiwan voters do not identify strongly with one party or the other, Wang explained, and no one is able to confidently predict how these voters will behave. The remaining 60 percent of voters are split almost evenly between Green and Blue, Wang continued. If voter turnout is low, Wang predicted, the DPP

will benefit, since DPP voters typically turn out in greater numbers than their less-motivated KMT counterparts.

UN REFERENDA

17. (C) Wang suggested there is little likelihood the DPP and KMT will agree to "consolidate" the two UN referenda into one, unless President Chen tries to do so via a "defensive" referendum. Both parties are using the referenda to entice their respective voters to the polls, Wang explained. A compromise referendum, stripped of controversial nomenclature, would do little to accomplish that purpose. The Director noted that using the "defensive referendum" mechanism would imply that Taiwan's security is under threat, which could cause negative cross-Straits repercussions.

18. (C) Wang asked the Director whether the U.S. considers the DPP UN referendum to be "crossing the red line" of the PRC's Anti-Secession Law. The Director replied that the U.S. believes the DPP UN referendum is both "unnecessary" and "unhelpful." Wang then asked how the US perceives the KMT UN referendum. The Director replied that it is not as problematic as the DPP referendum because it is not linked to "name change." Wang questioned whether passage of the DPP referendum would be equivalent to a declaration of Taiwan independence. The Director remarked that, regardless of its legal significance, passage of the DPP UN referendum would certainly provoke a reaction from Beijing.

ANXIETY OVER US-TAIWAN RELATIONS

19. (C) In closing, Wang asked the Director whether U.S.-Taiwan relations are really as difficult as the Director had seemed to intimate earlier. The Director replied that while our ties are durable, disagreement over the UN referendum and food safety standards has increased difficulties in an already strained relationship. Soon, both

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Taiwan and the U.S. will have new presidents, the Director reminded Wang. In this transitional period, he continued, both sides should take care to avoid worsening relations.

COMMENT

110. (C) Wang's measured optimism on the 2008 budget process is not universally shared. Many believe the KMT will block significant arms packages like the F-16's and PAC-III's until after the LY and presidential elections, then make their determination based upon who wins the presidency.
YOUNG